

THE FREE TRADE FORUM



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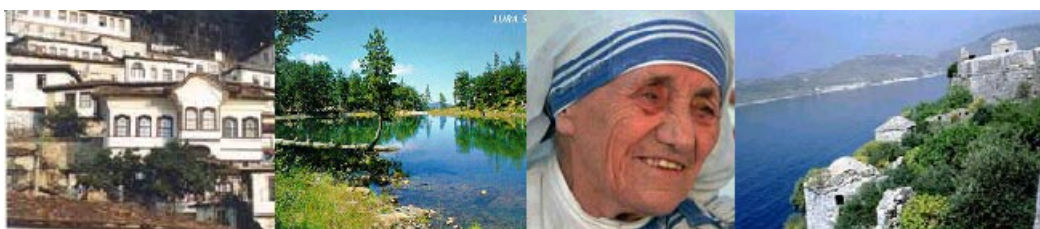
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FACING THE PROBLEMS AND BUILDING THE COALITION FOR FREE TRADE

A talk with Mr. Chuck Levesque, Member of the Managing Board of the American Chamber of Commerce in Albania

As an economist who is well acquainted with the Albanian economy, do you believe Albania's membership to the WTO and integration in the region will stimulate long-term foreign direct investment into Albania? Is the recent establishment of the American Chamber of Commerce in Albania (ACCA) in November 2000 a step in this direction?

I think that Albania's membership in the WTO is a very important step. I should tell you, however, that none of the businessmen from the US with whom I have spoken recently and who are considering coming to Albania have asked me whether Albania is a Member of the WTO. But Albania's membership is a sign that this Government is undertaking economic reform that is liberalizing the economy. And joining the WTO is a necessary step for Albania's integration not only to Europe but also to the world trading system. As such, it is a very important signal of this Government that it is taking economic reform seriously and is a signal that is welcomed by my Government and I am sure by the Governments of the European Communities as well. It may not be important in the short term, but it does have long-term implications.

The ACCA was established to do three things: to raise the profile of Albania in the United States, to increase the amount of trade between Albania and the US, and to create a voice for the business community in Albania. Actually we are actively working on all three levels to strengthen the business community in this country and to help the business community grow in strength and in confidence.

The US has been a strong supporter of trade liberalization in the world and they play a key

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AN INTRODUCTION TO THE TRADE IN SERVICES

Services play a vital role in facilitating all aspects of economic activity. "Infrastructural services (transportation, communications, financial services) provide the support necessary for any type of business. Educational, health, and recreational services influence the quality of labor available to firms. Professional services provide specialized expertise to increase firms' competitiveness. The quality of available governmental services determines the relative efficiency of the economic environment in which firms must operate. Increasingly, even in the production of goods, the major portion of value-added (up to 70%) comes from services inputs such as feasibility studies, accounting, engineering, administrative services, advertising and distribution." (Source: International Trade Center UNCTAD/WTO)

In a Secretariat background note, "Economic Effect of Services Liberalization", the WTO emphasizes that the demand for many services is highly income-elastic, i.e., as people grow richer, their consumption of services such as tourism, education and health, expands more rapidly than their demand for manufactures and agricultural products.

Services make up a major portion of world economies. According to World Bank and WTO sources, in developed countries this share typically lies between 60-70 %, while it is on average smaller in developing and least developing countries. For example services represent 39% of GDP in a country such as Nigeria, 50% in Zambia, or more than 60 % in Korea and Brazil.

The share of services in world trade and investment has been increasing. "They have been among the fastest growing components of world trade over the last 15 years. Services trade, as estimated from balance of payments statistics, was greater than \$1.3 trillion in 1999, representing over one fifth of

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role in promoting trade facilitation and free trade markets in the Balkans under the Stability Pact initiatives. How does the ACCA consider the Albanian Government's attempts to conclude a free trade agreement with Macedonia and then move forward in the same direction with other regional countries?

The Chamber doesn't have an official position on a free trade agreement with Macedonia. However, I can tell you that the members of the Chamber, which are businesses, large and small, American and Albanian are greatly interested in including opportunities for business here. If the free trade agreement will increase the opportunity to do business, it will increase the opportunity to trade, and the Chamber will support it. I will tell you that personally I would support free trade agreements, because I think they will offer more opportunities for Albania and I would like to see more work done not only on the Macedonian border, which may be difficult now that we have problems emerging in Macedonia, but also on the Montenegro's border. I just got back from Shkoder and the businesses there are beginning to develop ties with Montenegro, but it is still very difficult. I think we need more border openings, more border crossings along the Albania-Montenegro border. We also need people who can make transport more efficient and cheaper between the port of Bar and Shkoder, so that Shkoder can act as a port of entry for all of those in Albania who can develop trade relations with Montenegro. So, I support any attempts by this Government to extend a free trade area and to develop free trade areas, because I believe they will be effective for Albania.

What would you recommend to both sides, the business community and Government, to do in order to face the challenges of a free trade zone with Macedonia and the opportunities of the duty-free access to the EU market for products from Albania?

I think that the business community needs to have more information on what the free trade agreements and what the WTO mean to business in Albania. So, I think that the government could work in cooperation with the Chamber and other business organizations to provide seminars on what the WTO means for Albania and what a potential free trade agreement means for business. This is because that kind of information has not made its way down into the business community yet. I would say, however, that the business community right now has other concerns regarding trade. Those concerns include being treated fairly and efficiently at the customs facilities and having a Government that responds to their needs. I think that the highest levels of the Government are responsible to these needs, but still repeatedly I hear from business contacts that they have troubles with the lower levels of public administration. They have trouble getting licenses, they have trouble getting products through customs. So that's why we need to focus. But we, the Chamber, are willing and eager to learn more about these agreements and educate the business community so that they can take advantage from them. You can only have free trade if you build the coalition for free trade within your country. ■

THE SCHEDULE OF SERVICES OPENS THE DOOR FOR DEVELOPMENT

BY ALKETA VESELI

SPECIALIST IN THE PERMANENT ALBANIAN SECRETARIAT FOR WTO
RELATIONS

The Albanian Schedule on Services is a concentrated synopsis of all the Albanian legislation and regulations related to the field of services. The schedule of commitments that were negotiated during the accession process includes different service sectors ranging from professional services including accounting services, consultancy services, legal advising, architecture and engineering services, urban planning, veterinary services, medical services; to telecommunication services; construction services; tourist services; financial services with its three sub-sectors: banking, insurance and securities; transport services; entertainment services; educational services; health and social services; and environmental protection services.

The Albanian schedule specifies the commitments undertaken by the government. A commitment is any existing legislation or regulation that affects both the service provider and the provision of a service. The commitments taken by Albania imply that the government will only introduce legislation or regulation that is more liberal than that which exists. These commitments are described in two parts of the schedule: the horizontal part and the specific part. The horizontal part identifies those regulations affecting all sectors. For example, Albanian legislation spells out the conditions for the entry and temporary stay of natural persons in Albania, e.g., a high-skilled service provider that offers his service through the firm he represents or as an individual service provider. The horizontal part also identifies limitations on land ownership by foreigners, and limitations on international capital outflows and capital transactions. Such limitations can affect the provision of any service; however, Albania committed to lift the restrictions on capital by 2010. Nevertheless, the law on "Foreign Investment", which is referred to in the horizontal part, provides the terms upon which capital outflows can be freely carried out by residents and non-residents.

The specific part of the schedule contains the commitments on 11 sectors of services and more than 100 sub-sectors. It is constructed in four columns presenting respectively the sector description, the columns on limitations on market access and national treatment, and a column for additional commitments (see the insert summarizing the specific commitments). Because a service is intangible and invisible, the commitments on services needed to be defined according to the modes in which a service can be transacted internationally. There are four modes of services: cross-border supply, consumption abroad, commercial presence, and movement of natural persons.

The cross-border supply of a service refers to the case when a service provider is located in another country and provides a service to a customer in Albania. International long distance telephony is an example of a cross-border service. Consumption abroad is when a customer in Albania travels to another country for a service. An Albanian tourist in Greece and the repair of an Albanian vehicle in Italy are examples of consumption abroad. Commercial presence is when the service provider is located in Albania and provides a service within the Albanian market. The American Bank of Albania and the Rogner Hotel are examples of commercial presence. The presence of a natural person is when a foreign individual is temporarily in Albania to provide a service. This could be a case of a foreign computer software instructor providing commercial training programs.

Albania has committed to a liberal regime in services trade, especially

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in professional services, telecommunication services (except for public voice telephone services in urban areas), construction, distribution, environmental, education, tourism and health services. This implies that Albania has no, and will not place, restrictions on the provision of services or on service providers across the modes of supply. In sectors where Albania does have restrictions in place, the intention of the government was to negotiate for a transitional period whereby: (a) the privatization process could be concluded for a specific service (e.g., the sale of Albtelecom, the fixed telephony provider), or (b) the regulatory framework could be prepared for the development of a service market (e.g., insurance, services involving capital outflows, financial services related to securities).

Unlike trade in goods where tariffs can offer additional protection to the Albanian producer, Albanian service providers can only be protected by national rules and regulations. For example, domestic regulations specify the conditions upon which licenses are granted for professional services such as accountancy, engineering and related services, and health services. This ensures that domestic service providers will compete only with qualified foreign service providers. In the case of medical services, a foreign health professional has the right to a license to provide such services, but only in cooperation with an Albanian professional whether this professional is a partner or an employee in the foreign-owned medical clinic. This is a measure that also serves to protect the Albanian service customer.

I believe that Albania will benefit considerably from further liberalization of trade in services in the future. The number of foreign investors and investment will increase in parallel with the country's credible investment policy, which, in turn, will promote economic growth and stability. I would like to stress that the domestic reform process was the guiding framework by which the government negotiated its membership to the WTO. Some of the key legislative enactments that define services trade are the laws on "Telecommunications", on "Higher Education", on "Banking", and the amendment of the law on "Insurance Companies". As a result of the revision of our domestic legislation and regulations, Albania was able to commit to a liberal regime, which is not only reflected in the field of services. ■

TELECOMMUNICATIONS

PROUD TO COUNT THE STEPS AHEAD

PIRRO KOÇI, MEMBER OF THE NEGOTIATING GROUP, UNFOLDS THE BENEFITS OF LIBERALIZATION

We Albanians, when we reminisce a few years, remember ourselves running to the Post-Telegraph-Telephone (PTT) offices to make an interurban phone call booked earlier, or knocking on the door of a lucky neighbor who had a telephone to ask to borrow his phone. This was a time when the computer was a complete unknown appliance in offices, and we could not even imagine e-mail and internet. The General Directorate of the PTT was until 1990 the unique operator in the market, assuming all service functions such as mail and telecommunication.

The early 1990s brought multifaceted changes. The policy to liberalize trade in services gave us the hope to obtain new services. The first step toward functioning in conformity with free trade market rules was the division of entities operating in the market from the ones regulating the market. The General Directorate of the PTT took only the functions of regulating and administering state property in this field. In terms of operation, the mail service was separated from telecommunications. This act improved the commercial viability of the telecommunications service without having to subsidize the mail service.

The liberalization of telecommunications services was attempted in 1995 through Law No. 8083, "On Telecommunications". Nevertheless, it took three years for the institutional reform to arrange the entities in line with the progress made in legislation. In 1998, with the establishment of the Regulatory Body of Telecommunication, the function of regulation was separated from administration. The results, measured in issued licenses, came very soon. The first services to be introduced were by internet-providing companies, followed by paging services. One year later the Regulatory Body gave licenses to fixed telephony providers in rural zones. These operators have now started to construct their networks.

Cellular telephony is liberalized. The privatization of AMC, the state-owned company, by the consortium Cosmote/Telenor was followed by market entrance of the second private operator, Vodafone-Panafone.

The pro free competition policy has brought de-monopolization and free access to the market for foreign operators and increased the variety of services offered, and has augmented the quality of services. The consumer enjoys the right of selection. The only limitation is the monopoly in the fixed urban telephony

held by the state-owned company AlbTelekom Ltd.

Thus, the 1998-2000 period was the time of essential transformations in telecommunication services. This coincides with the intensification of Albania's negotiations to become a Member country of the WTO. The negotiations had a direct influence in the preparation of the development strategy for this sector. A clear illustration is the fact that the "Reference Paper", the document describing the issues relevant to anti-competition practices in the telecommunication market as well as issues of licensing and transparency, was attached to the document "The Strategy of Telecommunication Development in the Republic of Albania", approved in June 1999. Albania sanctioned by law and established the fundamentals of fair, non-discriminating and transparent competition.

Albania is committed to de-monopolize the service of fixed telephony in January 2003. A fixed deadline was required during the accessions negotiations, and, although strict in time, the Albanian Group of Negotiators judged that it was possible without deterring the development and restructuring, or reducing the market value of AlbTelekom.

In parallel with liberalization, the privatization process has continued which is scheduled to end within 2001. It will create conditions for a fair competition through imposing transparent and applicable rules for all. This means the company that will win the ownership right, will lose the privileges that AlbTelekom enjoys now as a state-owned company, or in other words, the superior position resulting from its status as a state monopoly.

Only two operators are now allowed to operate in mobile telephony, making this sector work under the regime of limited competition. Trade in telecommunications, as in general services, is affected by the internal regulatory policies that restrain trade. It is difficult to make a distinction between the regulations necessary to reach legitimate objectives, such as competitive conditions in the market and the need for assuring services to all strata of population, with those regulations with protectionist impact. While the logic that private companies should be free to take risks might be correct, this viewpoint ignores the needs for some basic services, with low economic profitability, but which provides a desirable social-economic result, such as fixed telephony does. ■

DEVELOPMENT MEANS LIBERALIZATION PLUS PRUDENCE

REPORT FROM A TALK WITH ALTIN TANKU, SPECIALIST OF THE BANK OF ALBANIA AND MEMBER OF THE NEGOTIATING GROUP



The collapse of the pyramid schemes in 1997 was a bitter lesson from transition in Albania. Despite the fact that this crisis has no relations with the banking system, it eroded the confidence of the public in the banks. In the global arena, 1997-98 is recorded as a period of financial turbulence that shook the East Asian region, resulting in bankruptcies of banks in transition economies throughout the world.

In Albania, the fundamental banking legislation was born exactly in this period (the Law "On the Bank of Albania" dated Dec. 23, 1997 and the Law "On the Banking System in the Republic of Albania" dated July 02, 1998). Altin Tanku, specialist of the Bank of Albania and member of the Negotiating Group to the WTO, says: "The banking legislation is a deep reflection on the lessons drawn from the Albanian financial crisis and worldwide negative experiences. In this context it is understandable that together with the liberalization tendency, the Bank is focused in strengthening the supervisory function to guarantee a safe and consolidated banking system."

Thus, the legislation represents a qualitative step that intended to increase the circulation of money within the banking system and helped to overcome the existing inefficiency in financial banking services through their liberalization, by paving the way to development and modernization of banking services. The development of the banking system cannot be separated from the international trade in banking services because of the important role they play in promoting efficiency, leading to expansion of the credit system, lowering the cost of borrowing and improved risk sharing.

Altin remembers: "So, we went to Geneva to negotiate with the WTO Member countries with a liberalized schedule for the banking services. The only restraints had to do with: (i) the outflows of capital for Albanian citizens and; (ii) regulations to licence a branch of any foreign bank.

The WTO Member countries (Switzer-

land, the EU and the USA) required the abolition of the first category. We had a long thought and we decided that it was premature to immediately remove this restraint. Liberalization should provide for irreversible progress. This requires placing careful adjustments and regulations. The experience of many other countries advised us on the need of a time planning horizon in regard to the abolition of the limitations on free circulation of capital portfolios and the liberalization of the banking services in general. Based on these considerations, we ended the negotiations with the allowance of a transitory period of 10 years for total liberalization of capital outflows."

The participation in international trade of our banking services requires the strengthening of the Albanian economy in general and overall an implementation of a powerful, lively and flexible local banking system. The Bank of Albania is committed to make this vision come through, and firstly this means to identify the barriers.

The Bank of Albania publication *"The Albanian Banking System, Problems of its*



View from American Bank of Albania

Development" (August 2000) has evidenced that the existing number of banks in Albania is not sufficient. Since the liberalized market welcomes the establishment of new banks, then the question is whether the new Albanian private banks can enter the market. In a country such as Albania where private business is less than 10 years old, the engagement in activities that require relatively large investment and lower profit rates, or a longer time for a return on an investment, which is exactly the case of the banking business, is difficult. The recognition of the fact that the main factor for the absence of Albanian private banks is the lack of capital from local businesses has not pushed the Bank of Albania to allow the reduction of the required capital for opening a bank. The commitment to respect the most favoured nation principle (MFN) and to approach international standards in the banking industry, as well as the concern for a healthy Albanian banking system were the basis of the applied judgment. Thus, today in Albania, out of 13 commercial banks in operation, 11 are ei-

ther totally foreign owned or have a majority-controlling foreign partner.

There are some regulations that are considered prudential measures regarding the operation of the banking system (the Law "On the Banks in the Republic of Albania"). Altin Tanku tells that the regulation on allowing a foreign bank affiliate to run the activity after receiving the licence by the Bank of Albania was not considered a limitation by the WTO Member Countries. This is in fact a necessity and non-refraining the market access clause.

He follows: "We are conscious that the existing limitations may have an effect on other financial banking services. The Bank of Albania is investigating the possibility to reduce the 10-year term for the total liberalization of the capital outflows. As part of the "Instruction of Hard Currency Exchange", issued in February 2001, the Bank of Albania has published the requirements needed to open a bank account abroad. We comply with the commitment undertaken during the negotiations for Albania's WTO membership. The suggestions for liberalizing measures and the terms to perform them are a function of the monetary, macroeconomic and exchange rate policies, as well as a function of the trade situation and the country's balance of payments."

The acceleration of liberalizing steps generates from the recognition of the existing situation. When the Bank asked businesses if they would transfer their banking accounts abroad if they were allowed to, 64.4% of them answered no, while 33.5% answered that they would transfer. In more concrete terms, half of the businesses engaged in services would have liked to transfer their banking accounts abroad. (*"The Albanian Banking System, Problems of its Development"* (August 2000))

The same source highlights that the market for banking services is largely untapped, and there is a need for licensing new banks (in particular universal banks, i.e. offering a wide range of services) to expand geographically the banking system, and increase the trade of new products and services. Albania's WTO membership enables Albanians to invest in new markets and to use new financial instruments. This provides opportunities to improve the competition and the efficiency in this market.

The lack of culture and tradition in the relations between banks and business is a constraining factor in the banking services expansion. However, the commercial banks still do not have ambitious plans for development. The adoption of more aggressive strategies in the market is becoming the challenge of the day for each of the banks. ■



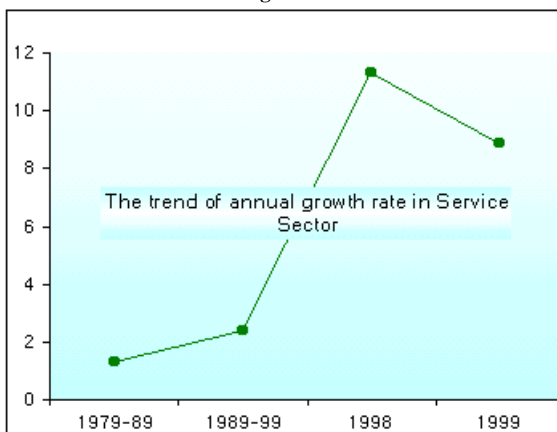
GROWING IN ECONOMIC SIGNIFICANCE: THE ALBANIAN SERVICE SECTOR

In Albania different sources of information do not use the same definition regarding what they refer to as the service sector. Some sources, for example the Ministry of Finance, do not include construction and transport activities in services contribution to GDP. According to WTO terminology transport and construction are subsectors of the service sector. This might explain the data discrepancy in service sector.

The difficulties in properly recording service sector contributions are related to the fact that services represent an input that is difficult to separate from the cost of production and value-added activity (for example engineering, feasibility studies, consulting services, and advertising). The difficulty in the measurement of intangible and invisible activity is compounded by the reform of the national statistical system. It is becoming even more difficult to trace the value of trade in services.

Regardless which methodology is used to calculate complete and accurate statistics, all data sources show an upward trend in growth in this sector in Albania. According to the WB (*"Albania at a Glance"*) during 1979 - 89 the annual

Figure 1



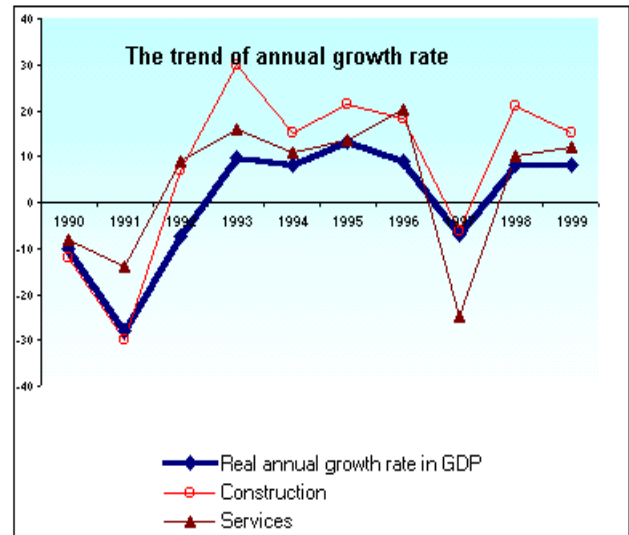
growth rate of this sector was 1.3%; in 1989-99 it was 2.4%; in 1998 it was 11.3%. (Figure 1) The strong development of the services after the 1990s reflects the need for infrastructural services during the start-up phase of a market economy.

The Bank of Albania *"Report on 1999"* highlights that in 1999 the construction and transport sectors were the fastest developing sectors, each growing at 15%, followed by all other services at 12% (the remaining service sub-sectors). The same source mentions the negative effect of the 1997 crisis, which hit the service sector more than any other sector of the economy. Due to this crisis the picture changed dramatically, that is the annual growth of the service sectors dropped from +20.1% in 1996 to -25% in 1997 (Figure 2). In more concrete terms, in 1997 the real growth rate of GDP fell to -7%, and this figure disaggregates to -5.6% in the industrial sector; 1% in agriculture; -6.3% in construction; -20.5% in transport; and -25% in other services sectors. Shortly after 1997 a significant increase was registered.

Construction could be called "the booming sector" because of its increase by 30% in 1993 and being the leader in annual

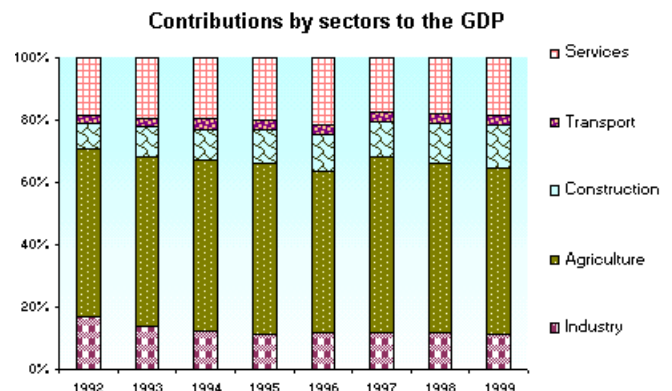
growth terms for the rest of decade.

Figure 2



In general, the service sector (including construction, transport) has shown a double-digit annual growth rate during the 1993-99 period. However, services as a share of GDP

Figure 3



do not account for one third of GDP (Figure 3).

There is every reason to expect that the Albanian service industry will strengthen and will continuously increase its contribution to the country's GDP and trade flows. The access to foreign service providers through the process of privatization and liberalization (e.g., telecommunications and private foreign banks) together with the expected vitalization of tourism industry should bring significant development. The imported skills and the imported technologies will be precious inputs for development. ■

INSIGHT

THE TRADE OF INSURANCE PRODUCTS IS DIFFICULT, BUT THIS DOES NOT SCARE US

A LOUD MESSAGE FOR THE PRIVATE BUSINESS PARTICIPATION IN DEVELOPING THE LAWS

In 1999, in an only 8-year old market in the field of insurance and one year after the establishment of the institution that enables and monitors the market liberalization, the private company 'SIGAL' started its activity based on the capital forwarded by two Albanian firms, Eurodrin and AKA, with an annual turnover of USD 30 million. The ambition to dominate the market involved the persistence to wake up potential consumers to the necessity of this service.

The company's director, Mr. Avni Ponari, thinks that the objectives are quite realistic. The insurance products are in the form of a "promise". Based on this viewpoint, the company has established steady relations of confidence. Mr. Ponari says: "We entered the market by completing intense requirements fixed by law, in regard to the level of technical qualification, the technical and financial means and in complying these means with the program of the activity. The recruitment of the staff is made on the bases of moral integrity and the confidence that they enjoy. The company takes care to invest in their training. The portfolio of our company is 100% reinsured in the reinsurance market. This guarantees the clients. SIGAL has provided the support of one of most successful reinsurance company in the world, MARSH Inc and this has given a positive impact to our position in the market".

After two years of being present in the market, SIGAL has 12 affiliates, 150 agencies and over 250 employees. SIGAL offers 24 kinds of products of which 35% are voluntary insurance products and 65% obligatory insurance products (which are required only for operation of motor vehicles).

An important issue is the insurance of maritime activity and water bodies as a source of national wealth that needs to be protected. The protection and indemnity clubs, P&I, are today widespread in

the world and one cannot think of vessels being found outside these clubs. SIGAL is the representative of the P&I in Albania and has issued some P&I insurance certificates. Mr. Ponari gives the example of an Albanian ship that was not allowed to enter Italian ports without presenting the insurance certificate. The insurance of the ship reached the value of USD 500 million and SIGAL offered this service.

The diversity of insurance products has kept increasing. Today, the insurance of students that study abroad, P&I insurance certificate of vessels, the aviation insurance, credit insurance and insurance against theft of automobiles is offered. SIGAL introduced contract warranty and of insuring the offer guarantee. These are products of high interest for business, because they provide guarantee to foreign investment and private businesses. One can mention DARFO, GRANIT, MAVROVA Mak-Yol, EBRD, FEFAD Bank as well as many other companies that operate today in the Albanian market.

"Albania has the lowest figure in Europe in terms of consumption per inhabitant of insurance services with only USD 5 per capita, while in other countries of Europe this indicator varies from USD 50 to USD 3,000 per capita. This shows clearly the difficulties to operate in the industry of insurance services. However, the low level of incomes does not respond in a precise manner to that" says Mr. Ponari.

The citizens and the State, as the natural clients of services, are not yet conscious of the role that insurance may and should play. This is evident when you refer to statistics of consumption of these services in general, as well as to the fact that they are dominated by obligatory insurances. The absence of culture and tradition of insurance is an important limiting factor that insurance companies have to face not only by themselves, but also in close co-operation with Commission for the Super-

vision of Insurances. Assisted by its reinsurance company, SIGAL has organized a national seminar "On Insurances as a services industry". The participants in the seminar were foreign banks, the Savings Bank of Albania and companies with foreign capital. This means that Albanian private or state-owned companies still do not take into consideration the benefits derived from being insured.

SIGAL's director says that Albania, as a Member country of the WTO, should continue the process of developing legislation and providing equal application for all the rules. He judges that legislation has deficiencies and can be enriched by anticipating obligatory insurance in some fields. "As an example," he continues, "in Albania it is not yet foreseen the necessity to insure hotels and residential buildings in general, or insuring consumers from potential risks from food articles consumption. This brings the situation when hotels are licensed without preconditioning them for the "hotel responsibility", or authorized entities give the license to food production companies without guaranteeing the "responsibility deriving from using the products", or tens of residential buildings that are constructed without guaranteeing "property compensation" in case of an earthquake.

SIGAL has the license for all types of insurance. Nevertheless, the quasi-monopoly position of the state-owned insurance company, INSIG, retains it from selling the "green carte" (the insurance for auto-vehicles driving outside Albania). There also have been cases of unfair competition, but mostly related to the past. Anyway, other positive developments in market liberalization will come from the privatization of INSIG, the state-owned insurance company.

A report from a talk with Mr. Avni Ponari, General Director of SIGAL ■

ADDING NEW WORDS IN THE MARKET'S VOCABULARY: "INSURANCE PROVIDER", "INSURANCE SERVICES" From a talk with Ejana Xhixha, Vice Director Insurance Supervisory Commission

The developing process of insurance services in Albania overcame the phase of their complete absence in 1991 with the establishment the Institute of Insurance, INSIG, as a 100% state-owned company. In the framework of the liberalization process Law No. 8081 dated March 07, 1996 "On Insurance and Re-insurance Companies" was approved, providing the basic requirements to create a market for insurance services. Nevertheless, the insurance market had a unique player, INSIG, until 1999, the year that announced *de facto* the liberalization of the Albanian market.

The establishment of the Insurances Supervisory Commission (ISC) in 1998, as the sole authorized entity to issue licenses and

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ADDING NEW WORDS:

"INSURANCE PROVIDER", "INSURANCE SERVICES"

continued from page 6

to supervise the insurance and re-insurance companies in the function of defending the interests of the insured people encouraged the creation of additional operators. In June 1999 the first two private insurance companies with Albanian capital, SIGMA and SIGAL, were licensed.

Albania's membership in the WTO secures the continuity of liberalizing steps: the application of transparency in the rules that govern the insurance services market; the creation of equal conditions for the operators; and the improvement of services by providing the clients with wider options of choice and quality. The possibility of choosing according to price, service quality, product variety and speed in which claims are paid are the fruits of liberalization.

Before April 2000, Albania restrained the participation of foreign capital in the establishment of a local insurance company to a maximum of 40% of the total capital, (Article 28 of the Law No. 8081). The amendment of this Law by the Law No. 8606, dated April 27, 2000 provides the guarantee that the Albanian insurance industry is totally open to foreign competition and the national treatment principle (NT) finds application in it.

The requirement for previous experience with exercising an insurance activity in a given country, as a condition to apply for a license in Albania, is a requirement applicable both to foreign and domestic companies. This is an adequate means to securing safe operation in this area of services. Some WTO Member countries stressed that the term of 10 years of experience of work in the country of origin, as fixed in the Law No. 8081 represented a restraint to the trade in services. After referring to the legislation of more advanced countries, the term was reduced to 5 years.

Today, the market is shared 70% by the INSIG and 30% by the two private companies in only two years of operation. The clients find lower service costs in the private operators and indemnity payments are made in an appropriate time period. In the meantime, there is no legal restraint on the number of insurance companies.

This restructuring process has brought on increased variety of services and increased market value of INSIG. During the last year, INSIG has undergone an organizational restructuring. The further performance increase of INSIG and providing equal conditions to all players are targets to be realized through INSIG privatization, a process planned for completion within 2001.

In January 2005, the direct insurance on risks encountered in the Republic of Albania by non-resident foreign citizens regarding their life as well as their property and investment will be allowed. This should provide opportunities for, for example, car rental insurance services and property insurance, giving foreigners a greater sense of security.

The insurance industry is still young in Albania and its services are known and used to only a limited extent. In total, the premiums from obligatory insurance keep the dominating place with 85%, while the insurance premiums per capita is about USD 4. The year 2001 is considered by the ISC as the year to promote the awareness through a campaign to increase the insurance culture in Albania. A national conference entitled "The Insurance Market in Albania" is planned to be held in 2001 and will be followed by other activities in many districts of the country.

RELATED EVENTS

A SEMINAR THAT SERVED DISSEMINATION OF HELPFUL INFORMATION

The National Chamber of Commerce and Industry, in cooperation with the International Trade Centre (UNCTAD/WTO) and the Technical Cooperation Division of the WTO, organized in Tirana a World Trade Net "Kick-off" meeting on March 14, 2001. Different Albanian trade companies and industries attended the meeting. Mr. Peter Naray from the ITC presented the World Trade Net, an ITC program aimed at supporting local initiatives in providing advisory and training services on WTO-related issues for the business sector. The Program focuses also on conveying information in channels, through a network of members, on the rapidly evolving and changing trading system affecting this business community and in reinforcing the private and public sector interface on the business implications of the world trading system. Mr. Maartens Smeets, a counselor from the Technical Cooperation Division, WTO, presented the multilateral trade negotiations in the WTO and the issues raised in Ministerial Declarations, as well as why the Ministerial Conference in Seattle failed. He talked about the opportunities and challenges of the new round of negotiations, bringing focus to ongoing negotiations in agriculture and services and interest in the upcoming event of Qatar Ministerial Conference in November 2001.

The representatives of different Albanian trade and investment companies brought to the seminar and to the particular attention of the speakers their concerns on Albanian export. For example, the representative of Alimpex Ltd., Mr. Syrja Kaso raised the concern of their stock of 10 tons of sheep wool. They signed contracts with Italian and Turkish importers but are finding no possibilities for export in the EU countries because of an old Order from the EU customs authorities 5 years ago, that banned Albanian livestock exports to the EU due to the presence of Episodic Afta disease in Albania at that time. In the meantime, Turkish companies came into Albania to the same region and exported from Albania the same wool under their name. This disease has disappeared completely from Albania now and the Alimpex representative claimed that the old EU Order is damaging Albania's export interests on groundless reasons.

The speakers advised the business community to put pressure on the Albanian Government to start talks with Italy and Turkey based on the WTO Agreements. If it is ascertained that the SPS Agreement is not being applied correctly in that particular case, then the Albanian Government has the right to ask the WTO Secretariat to initial a panel to review the case.

Other business representatives brought to the meeting other export related concerns, such as high EU tariffs, lack of detailed information on markets, and so on. The speakers of the seminar advised them accordingly. Representatives of the Albanian Secretariat gave the business representatives their contact numbers and encouraged them address the Secretariat on whatever trade-related problems that they experience. The General Secretary of the Albanian National Chamber of Commerce and Industry promised the business community that in May the Chamber and the Albanian Secretariat will organize another event, a large round table, to focus on the implications of the WTO for the business community. ■

WHY THE WTO IS IMPORTANT TO THE BUSINESS COMMUNITY?

MR. PETER NARAY, EXPERT IN THE INTERNATIONAL TRADE CENTRE EXPLAINS TO OUR NEWSLETTER THE GOALS OF THE NEW ITC PROGRAM

A program entitled "World Trade Net" of the International Trade Centre has two main objectives: (1) to make the business community better understand the business implications of the multilateral trading system, the WTO, and (2) open conversation between the business community and government, because we have found there are many problems in this area. Firstly, the business community does not really understand why the WTO exists, and why the different events in the WTO are important for them. Let's mention the textile or the agriculture. Obviously the Agreements in these sectors are very important for the business community because they have an immediate and direct effect on their interest. For their long-term business strategies they cannot tackle the problem if they do not take into consideration the future. What is going to happen, for example, in the textile sector in 2005? There may be a completely different competitive situation in most important markets; therefore, if they wish to react to it they have to think today, they have to analyze the situation in the light of the Agreement and they have to make the necessary investment and other adjustment measures in time, just to be ready to meet the challenges.

In the other area, I mentioned a line of communication between the government and the business community. This meeting indicates to me that in Albania, like in other transition economies and developing countries, there are many problems in this area. The governments sometimes do not know what are the precise interests of the business community, they sign agreements, which do not necessarily, or not in all cases, reflect the interest of the business community and that must be changed. This is easy to say, but it is not easy to improve. It needs a long learning process. You should know how other countries operate in this area. Albania is a new member in the WTO, is a new comer in the business arena or at least a new comer in the area of market economy and should know what are the institutions in this area, what are their rules, what are the practices. Albania should follow the examples of other countries; the good examples because there are good examples and there are not good examples. Selecting the good experience is

helpful.

This program of the ITC can be helpful. We have many publications, we offer regional seminars, we offer interactions through Internet and we offer experience of the whole network and there are about 30 countries in this program and in some areas they all have similar experiences. Why not to share this experience? Therefore, that is why this program is useful. ■

AN INTRODUCTION TO THE TRADE IN SERVICES

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world trade in goods and services" (World Bank).

The importance of service industries is already increasing and is even expanding faster than other sectors such as agriculture or manufacturing in most developing countries and particularly in least developed countries. "However, due to difficulties in tracking the trade flows of services the reporting capabilities are significantly weaker in developing economies than in the developed. Thus, firms in developing and least developed countries are already exporting services, but the volumes and destination markets are not fully registered" (International Trade Center UNCTAD/WTO).

There are two main reasons identified by the International Trade Center why trade in services is growing in the world: (i) technological progress, especially in telecommunications and information technology; and (ii) broad trend towards liberalization/regulatory reform in key service industries (break up of telecommunications monopolies; embracing of privatization and competition around the world in key infrastructural service sectors (telecommunications, transport, finance).

The more important the service sector gains, the higher is the risk it represents in case of any failure. Consider, for example, the shockwave effect in all regions of the world if a large bank crashes. "Similarly, the interruption of transport and telecommunication links could, within a very short time period, bring any economic activity to halt. Such risks have inspired the enactment of regulatory constraints - capital adequacy, and asset quality requirements, telecommunications technical standards and the like - intended to ensure the continued availability of core and commercial services" (WTO, *Economic Effect of Services Liberalization*).

Our Mission

- ☑ Disseminate information on all WTO-related issues pertinent to the Albanian economy to the Government, Parliament, business and international organizations;
- ☑ Report on the Albanian Secretariat's relations with the WTO and announce the upcoming events of the Organization;
- ☑ Facilitate inter-agency coordination function of the Albanian WTO Secretariat by strengthening the channels among key institutions;
- ☑ and Serve as an educational platform, discussing the challenges of Albania's Membership and benefits of having a voice in the multilateral trading system.

"The Free Trade Forum" Albania's WTO Newsletter

The opinions expressed in the newsletter do not necessarily reflect the views of the Ministry of Economic Cooperation and Trade, the USAID, or CLDP, U.S. Department of Commerce.

Editorial staff:

Fatos Çoçoli

Irena Jorgoni

Adriana Civici

Roberto J. Garcia

Address:

Ministry of Economic
Cooperation and Trade
Blv. "Zhan D'Ark", No.2, Tirana
Tel/fax: +355 4 236994
albnewsletter@interalb.net
Supported by:



Commercial Law Development Program

INTERESTED BUSINESSMEN AND
INSTITUTIONS MAY CONTACT:

Ms. Sabine Meitzel, Program Coordinator at
the ITC

Fax. +41 22 733 44 39

E-mail: meitzel@intracen.org